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Politics by Default: China and the Global Governance of African Debt

Nicolas Lippolis and Harry Verhoeven

African debt is back in the global spotlight. The International Monetary Fund (IMF) estimates that at the end of 2019, the total debt of sub-Saharan African governments amounted to close to $1 trillion – more than 60% of the region's GDP. This appeared to be the culmination of years of steadily incurred liabilities by African states which had earlier benefited from the Heavily Indebted Poor Countries (HIPC) programme and Multilateral Debt Relief Initiative (MDRI). HIPC and MDRI aimed to help the world's least-developed countries reach predetermined debt-sustainability thresholds and to place their growth trajectories on a more durable footing. Africa's most recent debt build-up has occurred despite warnings by international financial institutions (IFIs) that many of the gains of the early 2000s risk being squandered. Against this background of ballooning African balance sheets, COVID-19 struck: healthcare costs soared and revenues from tourism, remittances and commodity exports collapsed. In the weeks after the imposition of lockdowns around the world, more than $100 billion in capital fled emerging markets.

Many IFI officials assumed that a wave of defaults was inevitable. In April 2020, the IMF and World Bank proposed the Debt Service Suspension Initiative (DSSI) – a year-long moratorium on paying off loans to official

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bilateral creditors – to afford dozens of low-income countries time to respond to the pandemic without simultaneously having to impose austerity measures. The public finances of many African states have nonetheless worsened. The DSSI was extended until the end of 2021, while the IFIs have designed a Common Framework for Debt Treatments with the goal of returning countries to a long-term path of fiscal sustainability through close collaboration with the IMF. The Common Framework's stated aim is to provide debt relief – perhaps even cancellation – to those who agree to treatment. In theory, creditors consent to rescheduling of the principal or interest in exchange for distressed states' agreement to fundamental reforms and transparency on extant liabilities.

The resurgence of anxieties over African debt has led to a hunt for culprits. US government officials have been explicit in identifying the problem: China's pursuit of 'debt-trap diplomacy' as part of its bid for global economic and eventually political dominance. Former US ambassador to the United Nations Nikki Haley asserted that 'this was China's plan all along. To run up the debt of these developing countries and when they couldn't pay them back, China would take their assets. We warned them this would happen.'[1] As secretary of state, Mike Pompeo claimed that 'it's no secret [China] is by far the largest bilateral creditor to African governments, creating an unsustainable debt burden'.[2] This line of thinking predates the Trump administration. In 2015, Barack Obama spoke at the new, Chinese-built headquarters of the African Union and pointedly warned that 'economic relationships can't simply be about building countries' infrastructure with foreign labor or extracting Africa's natural resources'.[3] The Biden administration too has warned that China was demanding pre-eminence among Africa's partners and subverting Western assistance to the continent to support its own hegemonic ambitions. Discussing the initiatives of Western creditors to help low-income countries, Secretary of the Treasury Janet Yellen commented that 'we would be very concerned to see the resources that are provided to these countries used to repay Chinese debt'.[4] In making such assertions, many US officials implicitly or explicitly evoke the idea of a 'new cold war'. African decision-makers increasingly feel that the logic of zero-sum competition between two ideologically opposed

systems of government with divergent approaches to global governance is now the prism through which Chinese and Americans perceive each other's initiatives on the continent.[5]

The debt-trap-diplomacy narrative obscures other, more consequential drivers of Africa's renewed accumulation of debt and marginalises more constructive approaches. The DSSI and Common Framework are more about China and the US than they are about Africa. For the United States and other Western donors, the developmental priorities that African actors stress have been secondary to inserting African defaults into a discourse of global confrontation. The inclination to characterise Africa's debt crisis as Chinese-designed is deepening global political and financial tensions.

The logic of debt-trap diplomacy

After the Cold War ended, Africa lost much of its geopolitical resonance.[6] In recent years, however, great powers have reinvigorated their interest. While several factors – the campaign against transnational jihadist terrorism, the HIV pandemic, commodity-price increases – have driven this reversal, perhaps none has been more important than Africa's expanded interaction with China.[7] While bilateral trade was worth about $10bn in 2000, by 2015 it exceeded $200bn. China has become the continent's single-largest trading partner, and the dozens of infrastructure projects it has helped to finance or implement have massively expanded road connectivity, energy generation and flood-control capacity. Hundreds of thousands of Chinese nationals have moved to Africa and are active from Egypt to South Africa in agriculture, construction, healthcare and retail trading. Since 2013, Chinese foreign direct investment (FDI) inflows into Africa have exceeded those of the US every year, with China's total FDI stock now surpassing more than $100bn. A burgeoning literature has investigated the multiplicity of China–Africa interactions, evincing heterogeneity and complexity rather than what is often superficially understood as a one-way vortex of transformation.[8]

Many Africans have welcomed the attention.[9] But the United States has sought to dampen their enthusiasm by way of the debt-trap narrative, which posits that China's domestic economic miracle, its global rise and the return of catastrophic African debt are intimately connected. The argument

is essentially that Beijing exploits the despair of deindustrialising societies – in Africa, manufacturing's share of GDP fell from 19% to 11% between the 1970s and 2014 – that need to upgrade their infrastructure or create jobs, and its principal means of doing so is to stealthily render financially challenged countries dependent on it. Chinese loans, the argument runs, are inherently unrepayable, allowing China either to seize invaluable collateral (such as ports or oil reserves) or to force a nominally independent state to bend to its political ideology.[10] Debt-trap diplomacy is thus alleged not only to secure the immense quantities of African bauxite, cobalt, copper and other minerals China needs to grow its own economy, but also to reorient African political systems and foster authoritarianism. The net result, according to John Bolton, a former US national security advisor, is 'to stunt economic growth in Africa; threaten the financial independence of African nations; inhibit opportunities for U.S. investment; interfere with U.S. military operations; and pose a significant threat to U.S. national security interests'.[11]

> *China is Africa's biggest bilateral creditor*

In the last decade, as China's footprint in Africa has grown, the United States has adopted an increasingly competitive posture.[12] For example, it sought to deliver superior assistance to Guinea, Liberia and Sierra Leone during the 2014–15 Ebola outbreak, and launched the US Agency for International Development's (USAID) Power Africa in 2013 as a public–private partnership to rival Beijing's state-owned enterprises that were building refineries and megadams from Ghana to Sudan. Yet this kind of approach merely gives African states the opportunity to pick and choose their preferred option rather than underlining Washington's point that Chinese involvement may ultimately be detrimental to African interests. The deepening of Africa's debt woes after 2015, turbocharged by COVID-19, precipitated an implicit escalation of the debt-trap narrative. When capital began to flee emerging markets and international trade froze up in March–April 2020, the World Bank and the IMF urged the G20 to adopt the DSSI, whereby a temporary moratorium for 73 of the world's poorest states on servicing debt to foreign-government creditors would enable those states to prioritise healthcare and stabilise purchasing power. China is Africa's biggest

bilateral creditor, while most private holders of African debt are based in Frankfurt, London and New York. Capital, in the form of debt repayments, thus continues to flow from Africa to Europe and North America, while China has, by some margin, been the single biggest contributor to the DSSI.

As a matter of public relations, China could hardly resist the demands of the world's poorest countries for debt relief.[13] Beijing grudgingly joined the DSSI, though only the Ministry of Commerce, China International Development Cooperation Agency (which, like the Ministry of Commerce, mostly extends interest-free loans) and the China Eximbank (which offers concessional credit lines to African states) officially signed up to the IFI–G20 initiative, freeing up more than $1.3bn in service payments to low- and middle-income countries. The China Development Bank and the Industrial and Commercial Bank of China, which Beijing claims are not official creditors but rather for-profit lenders, initially opted out. In response to US criticism, these institutions have made numerous 'goodwill' gestures, postponing roughly $750 million in repayments by countries such as Angola and Zambia. World Bank President David Malpass, formerly a Wall Street banker and Trump administration official and one of the developers of the debt-trap-diplomacy discourse, led the charge in upping the ante: 'All official bilateral creditors, including policy banks, need to participate in the debt suspension. For example, full participation of the China Development Bank as an official bilateral creditor is important.'[14]

The DSSI expired at the end of 2021, and service payments resumed, in many cases at levels higher than before March 2020 because of rising premiums or higher total debt stock. The Common Framework offers additional relief, providing states that formally apply with coordination among all their creditors in the G20 (of which China is a member) and the Paris Club, a powerful informal group of mostly Western government lenders. The Common Framework, like the DSSI, does not automatically crowd in private capital, though 'comparability of treatment' is supposed to be accorded to all creditors. The hope is that the carrot of comprehensive debt restructuring in exchange for collaborating with the IMF on long-term fiscal sustainability will substantially unburden African states while also compelling China to conform to Paris Club conventions, which it has so far declined to do.[15]

A crucial requirement for Common Framework treatment is disclosure of all extant liabilities, which US officials consider a means of exposing debt traps that may be hidden deep in African financial systems.[16] The logic here is that transparency could compel Chinese officials to swiftly forgive current debts and thereby forgo corresponding commercial and political advantages that Beijing garnered from them in order to avoid public embarrassment over their rapacious practices.

The Common Framework thus creates a dilemma for China: it must either voluntarily discard its comparative advantage and play by the international rules or effectively place itself outside these institutions and be seen as a rogue actor. In imposing this choice, the Common Framework reflects the desire to settle a long-standing debate about Beijing's intentions in global politics.[17] Can China's rise be contained within the liberal international order as Beijing joins its main pillars, or is China trying to subvert international public goods to establish its own global hegemony?[18] While hawks in Washington have been expecting to force Beijing's hand via the Common Framework, liberal internationalists hoped that China would sign up, thereby implying that it is a great power that can be accommodated by the liberal order, not a revisionist one that wants to undermine it. China, for its part, has continued to hedge. While offering limited participation of Chinese institutions in the Common Framework, Beijing has cast it as a sub-optimal approach to African debt and development in Africa, and advanced the view that the dearth of reform in Western-dominated international organisations preoccupied with austerity rather than growth is a far greater threat than Chinese lending practices.[19]

Is China really entrapping Africa?

Central to the debt-trap thesis is the notion that a creditor state can exert considerable influence over a weaker debtor state, compelling it to make significant behavioural changes. US anti-China hawks share this view with Marxist-inspired scholars and activists who have long bemoaned the power exerted by the US and the IFIs over African states through debt.[20] 'Structural adjustment' in the 1980s and 1990s – whereby public services were brutally axed and austerity was made a precondition for IFI programmes – has been

extensively cited as a case of traumatic creditor influence. Lenders themselves seldom adopt this perspective, and instead stress the difficulty of recouping loans, coordinating different creditor interests and inducing any meaningful policy change when there is little political interest in doing so on the part of the debtor.[21] 'Looking at recent history', notes Daniel Drezner, 'what is surprising is not the rising power of creditors, but rather how hamstrung they have been in using their financial muscle.'[22]

Chinese creditors have been much less successful in repatriating capital than outsiders assume.[23] Senior Chinese officials focus on recouping some of the funds loaned to African states first and foremost because it is in their professional interest to do so to gain promotions in institutions such as the China Development Bank and the Industrial and Commercial Bank of China. China is also a relatively inexperienced lender and is still establishing its reputation; failing to address moral hazard has long been known to undercut the credibility of great-powers creditors, thereby weakening partnerships and even domestic coalitions.[24] In addition, most of Beijing's loans are in US dollars. Given the risk of a depreciating US dollar, over which Chinese lenders have no control, the problem of currency mismatch provides motivation to retrieve money lent rather than using it as leverage.[25] The financial position of Chinese institutions, domestically and internationally, would be considerably weakened if developing countries defaulted on their liabilities en masse.

Repayment rates by African states are not especially impressive. China's standard response has been to try to restructure extant loans to African governments and to kick the can down the road, rather than to forgive the debt outright, which would taint the record of the officials handling the loan and might, in the case of large borrowers such as Angola, create problems on the balance sheets of Chinese financial institutions. That approach only goes so far in managing a solvency problem, but it helps explain China's reluctance to join the DSSI and the Common Framework, which not only freeze repayments to official creditors but also raise the spectre of large-scale debt forgiveness.

This is not to suggest that China only lends to African states for financial reasons. Sovereign debt has never been apolitical, and deferring collection of debt can be intended to retain political leverage. Chinese officials

acknowledge that credit serves the purpose of drawing states and corporations closer together and invest heavily in relational power, but argue that there is nothing unique about that.[26] State creditors and debtors throughout history have engaged in financial interactions that are constitutive of a larger social relationship and serve a broader set of interests.[27] Loans, the argument continues, give the lender a stake in the stability of the borrower and implicitly recognise the borrower's legitimacy and durability. In that sense, loans are not hugely different from development aid. Both can be understood as a set of asymmetric negotiations between donors and recipients that are integral to an ongoing political relationship.[28]

By Beijing's own admission, much of the credit and assistance that China provides to African states is more about relationships than money per se.[29] But that does not make it in any way remarkable. Western aid regimes and IFI lending have substantially the same objective of deepening political bonds.[30] The World Bank funds projects in China itself in part to facilitate exchanges of perspectives and signal commitment to a working relationship between Western nations and China, which is the bank's third-largest shareholder. This is not to negate the potentially problematic operationalisation of institutional lending features such as confidentiality, seniority and policy influence, but rather to note that the underlying goals of Chinese creditors are not structurally dissimilar from those routinely pursued by Western states.

The root of Africa's debt problem

If the power of Chinese creditors to be repaid is structurally limited and the political nature of their lending to African states unexceptional, do the sheer volumes of Chinese loans stand out as uniquely problematic? Certainly debt levels have soared since the HIPC and MDRI initiatives of the early 2000s, when about $120bn (in 2015 dollars) in debt was wiped off African balance sheets.[31] Debt-to-GDP ratios in sub-Saharan Africa have since doubled from about 30% in the mid-2000s to 60% on the eve of the COVID-19 pandemic. This expansion has coincided with spiralling trade volumes between Africa and China, and sustained Chinese FDI in Africa.[32] However, the evidence that debt to official or commercial Chinese entities has been the prime

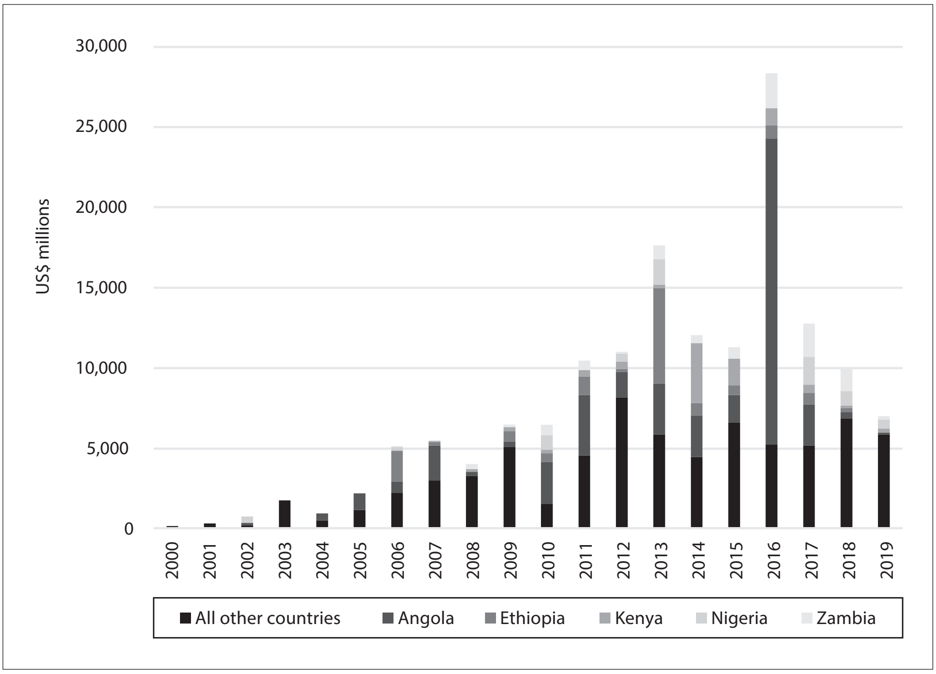
culprit in exacerbating Africa's fiscal predicament is scant. According to confidential estimates of the IFIs seen by the authors, sub-Saharan Africa's government debts to Chinese entities at the end of 2019 totalled around $78bn. This is only about 8% of the region's total debt of $954bn and 18% of Africa's external debt. Roughly half of Africa's public debt is domestically issued, and the other half is owed to external actors. Of the latter amount, one-third is owed to bilateral official partners, one-third to IFIs and one-third in the form of 'Eurobonds' denominated in a currency other than that of the issuing state. Of the bilateral debt, the IFIs estimate that about half is owed to China.

The World Bank's publicly available International Debt Statistics paint a similar picture of Africa's external debt. The total of $427bn is broadly in line with estimates that 50% of Africa's total debt constitutes external obligations. Debt owed to multilaterals, bilaterals and Eurobond holders are all similarly sized, although commercial debt appears as a separate category. Moreover, the publicly available data shows that Chinese-held debt makes up roughly half of the bilateral debt stock, again in line with internal and thus far confidential IFI estimates.[33]

The internal IFI calculations correspond rather well with the most rigorous investigative work done on the subject, notably by the Global Development Policy Center of Boston University and China Africa Research Initiative at Johns Hopkins University. They estimate that Beijing has lent about $150bn since 2000 to African countries, mostly through the China Eximbank (60%) and the China Development Bank (25%), suggesting that about $75bn has been paid off already. This is a sizeable amount, but not large enough to have been the main driver of the debt build-up since 2004–05. Furthermore, the data reveals that Chinese lending, rather than driving a continent-wide expansion of debt, is heavily concentrated in just five countries: Angola, Ethiopia, Kenya, Nigeria and Zambia (see Figure 1). The idea that Chinese debt traps jeopardise the entire continent is clearly hyperbolic.[34]

There is also not much evidence that Chinese lending to African debtors occurs at extortionate interest rates that are different from what Western or Gulf Arab private creditors charge. More than half of all commitments to Africa are loans at commercial rates. According to interviews conducted for

Figure 1: **Chinese loans to Africa, 2000–2019**



Source: SAIS-CARI loan data

this article with senior Chinese officials and private-sector specialists, the interest on such lending is usually pegged to the London Interbank Offered Rate (LIBOR), a benchmark interest rate at which banks can borrow from one another, and most loans extended by Chinese entities are about 250 to 400 basis points above LIBOR, which is not particularly expensive. A recent study confirms that the interest on China Eximbank's commercial loans is usually 0.5 to 4.5 percentage points above LIBOR for projects involving state-owned enterprises, in line with international market offerings.[35] (Some of the World Bank's loans have similar commercial characteristics and are also based on LIBOR, but are offered slightly cheaper as a result of the bank's AAA credit rating, and with greater conditionality.) This makes borrowing from China attractive to African states – almost always available, often tailor-made for infrastructure projects and far from usurious. Although the appropriateness of a homogeneous 'Chinese finance' category may well be questioned, the best available figures show that Chinese project funding boosts economic growth in developing countries by up to 1.5% two years after loan dispersal.[36]

Critics of China might still insist that even if its relative contribution to African debt is more limited than commonly believed, the terms and understandings attached to Chinese loans are uniquely murky and make them ticking bombs. Underscoring the dangers of opacity is not an unreasonable point: loan contracts are usually exceedingly hard to access, difficult to compare, and subject to complex and changing conditions.[37] Unregistered monies owed to Chinese banks represent a sizeable sum, and if added to the IFIs' best estimates might further push up debt-to-GDP ratios of already distressed African states. In that sense, calls for greater transparency are important. At the same time, growing evidence suggests that 'dark debt' is by no means a Chinese monopoly but rather a well-established and expanding practice involving global complicity.[38] As the example of OPEC member Republic of Congo vividly shows, the biggest off-budget creditors for a debt of more than $8bn are international oil traders such as Glencore and Vitol, as well as European banks (Société Générale, ABN AMRO) and numerous companies based in Beijing, Dubai, London and Paris.[39]

Chinese banks undoubtedly extend many resource-backed loans (with mineral deposits or hydrocarbons serving as collateral) that are intrinsically hard to evaluate, as the values attached to collateral and the loan are strongly subjective.[40] This increases scope for costly errors of judgement or outright rent-seeking, but it does not necessarily make such loans dark debt. Resource-backed loans also have numerous potential advantages as tools for financing infrastructure projects and managing risk.[41] For lenders such as China, they offer reassurance that the money provided to debtors with questionable credit might at least partly be recuperated upon default, in the form of barrels of oil or future export revenues. From the standpoint of fiscally hamstrung African states, using collateral to obtain credit lines is one of the only options available for accessing significant amounts of capital for infrastructure spending. In addition, resource-backed loans can, depending on their structure, help mitigate problems that arise from global volatility insofar as African economies remain price-takers in commodity markets. Such loans also offer a mechanism for mitigating uncertainty between lenders and borrowers, and are valued by both for that reason.

The Western debt-trap narrative tends to posit China's aggressive seizure of African collateral – minerals, oil or other strategic assets – as a pre-planned outcome.[42] The most frequently cited example of such 'debt for equity' is from outside Africa. It involves the Sri Lankan port of Hambantota, which allegedly shifted to Chinese ownership when the island state was facing solvency problems.[43] Actions of this sort have not occurred in the African context, though some purveyors of the debt-trap narrative point to the hypothetical example of Djibouti, where Combined Joint Task Force–Horn of Africa – the biggest US military facility on the continent – is situated right next to China's first overseas naval base. In 2018, then-US national security advisor Bolton, noting that from 2014 to 2016, Djibouti's external public debt-to-GDP ratio grew from 50% to 85% and that China held most of that debt, suggested that Djibouti might soon hand over control of the Doraleh Container Terminal, a strategically located shipping port on the Red Sea, to China.[44] This nightmare scenario foresees Beijing establishing full control over a key regional maritime entrepôt, allowing it to close the Bab el-Mandeb Strait and imperil US commercial and military navigation in the Red Sea.[45] The Pentagon and the State Department have pressured Djiboutian President Ismail Omar Guelleh to shrink China's military and financial influence in his country.

Bolton's dire inferences illustrate how the debt-trap narrative shapes real-world policies despite its questionable evidentiary basis. The Djiboutian government maintains that the country is neither a flashpoint in a new cold war nor a victim of any debt trap.[46] Djiboutian debt has risen considerably in the last decade, but the DSSI estimates that only half as much as Bolton claimed is actually owed to Chinese lenders, which have not seized any Djiboutian assets.[47] In fact, the participation of Chinese banks in the DSSI has saved the country perhaps 4% of GDP in debt-service payments.[48] Little thought has been given to the notion that it might be in the strategic interest of a small state like Djibouti to develop meaningful financial and military relations with more than one extra-regional suitor. There are plenty of indications that the Guelleh government actively cultivated a bigger Chinese footprint to balance the historically overwhelming influences of France and America.[49]

This underscores an important reality that the debt-trap narrative tends to overlook: for China to grab a strategic asset against the wishes of an

African state would be a diplomatic own-goal. It would almost certainly be an expensive and difficult operation, involving the projection of military force. As such, it would undercut the message of southern geopolitical solidarity, non-interference in internal affairs and economic partnership on which China's diplomatic and commercial gains in Africa since 2000 have been substantially built.[50]

African naivety or African sovereignty?

The virtually non-existent evidence for the Chinese seizure of strategic assets shows the conceptual and empirical weaknesses of the debt-trap-diplomacy narrative. It reflects a lack of recognition of China's and African states' structural positions in the global political economy and the concomitant dilemmas for Chinese creditors and African debtors. Consequently, the narrative's proponents also fail to explore how to better align the interests of the West and the IFIs with Chinese and African actors.

Especially neglected are the challenges to African states posed by weak sovereignty and how they inform the ways in which African states approach China.[51] The Chinese debt-trap discourse depicts African governments as gullible, uninformed actors fooled by trickery and corrupted by bribery.[52] This overlooks the sophisticated strategies that African elites have developed for decades to manage various forms of dependency on external actors, and the strategic use of external levers for political survival and policy autonomy. African states have potently instrumentalised asymmetry and weakness, defying cartoonish portrayals of exploitation or deceit by outside forces.[53] The rule is not Chinese diplomats and financiers forcing African governments to do their bidding, but rather the other way around: leaders in countries such as Angola, South Sudan and Sudan have sought to focus international and domestic politics on China's support for them to dilute external and internal challenges to their rule and increase their freedom of action.[54] Chinese officials, for their part, have sometimes been at a loss as to how to handle this. On balance, however, the shrewd machinations of African leaders have tapped into the instinctive conservatism of their Chinese partners and their need to deliver on the Chinese Communist Party's financial exigencies. In Ethiopia, for instance, Beijing was dismayed

by Prime Minister Abiy Ahmed's bid to court Washington by mounting an economic-liberalisation drive and vilifying his allegedly pro-Chinese predecessors.[55] Yet the need to ensure repayment of Ethiopia's considerable debts to China compelled Beijing to pragmatically support his moves.

The imperative of managing weak sovereignty is also central to the financial-management strategies of African sovereigns and to their critiques of the global development-finance regime. African states' increased access to global private financial markets, together with the rise in Chinese lending, have underscored the trade-offs among terms, speed of disbursement and policy conditionality that policymakers navigate in their exercise of financial sovereignty. From this angle, the debt-trap narrative does not take seriously the principal reason African debtors cite for their interest in new donor and private-sector finance: insufficient amounts and unfavourable terms offered by Western bilateral donors and the IFIs.[56] Part of the appeal is that China possesses expertise in and promotes large infrastructure projects that Western donors have neglected for decades.[57] Despite major capital increases for all multilateral development banks (MDBs) in the last decade, the rise in lending in response to the UN Sustainable Development Goals and the pandemic has fallen short. The expansion of funds is less than half of what the MDBs mustered in response to the 2007–08 financial crisis and subsequent recession, notwithstanding the added stress of the pandemic on low-income countries.[58] While the IFIs have echoed many of Washington's concerns about African debt ratios and made them the centrepiece of the DSSI and Common Framework, African governments emphasise acute financing needs that can't be postponed: they will look for credit where they can find it. For them, Africa's central problem is still that the continent is badly financed by the global community rather than being over-indebted.

International finance and Africa's crises

Today's debt-trap-diplomacy narrative is a function of Sino-American strategic and ideological rivalry rather than a reflection of African realities or perspectives. Besides obscuring the complexities and nuances of the China–Africa relationship, it ignores the role of global conditions as key determinants of financial inflows and outflows on the continent.[59]

A look at Africa's first debt crisis illustrates the point. Contrary to today's widespread perception of Africa as perennially on the brink of default, African debt was simply not an issue for the first two decades after decolonisation, when global capital mobility was limited, exchange rates were fixed and national monetary autonomy was a priority. From the 1950s to the 1970s, financial crises and defaults were rare in Africa, and debt-service payments for African states seldom amounted to more than 2% of GDP. However, as the 1970s oil shocks and the economic downturn in the West created excess liquidity in the global financial system, the glut was recycled in the form of loans to poor countries. In the 1980s, steep interest-rate hikes by the US Federal Reserve, declining commodity prices and the aggressive conditionality of IFI structural adjustment to spread the magic of deregulation and privatisation made debt the central interface between external actors and African states.

Much of the debt was incurred through three vectors. Expenses related to the intensification of the Cold War (including lavish Soviet and Western credit lines to import weapons and buttress regimes) destabilised balance sheets. Unprecedented lending by export credit agencies, which sought to create commercial opportunities for European and North American companies as they struggled with austerity at home, ensured that by 1980 more than a third of African liabilities were owed to them.[60] And the failure of structural-adjustment programmes to relaunch growth simultaneously increased absolute debt levels and depressed GDP.[61] The result was 20 years of agony over African debt – mostly held by Paris Club lenders and the IFIs – until HIPC and MDRI wiped much of the slate clean.

Africa's current debt situation too is tightly linked to developments in the global political economy. Chinese loans and aid are a logical outcome of the growth model pursued by the Chinese Communist Party as it has kept domestic consumer spending low, practised financial repression and manipulated its currency to subsidise exports by its state-owned enterprises.[62] The surplus dollars thus accumulated need an outlet and have partly been recycled through African infrastructure projects. But to focus on this very Chinese explanation is to miss the broader global context.

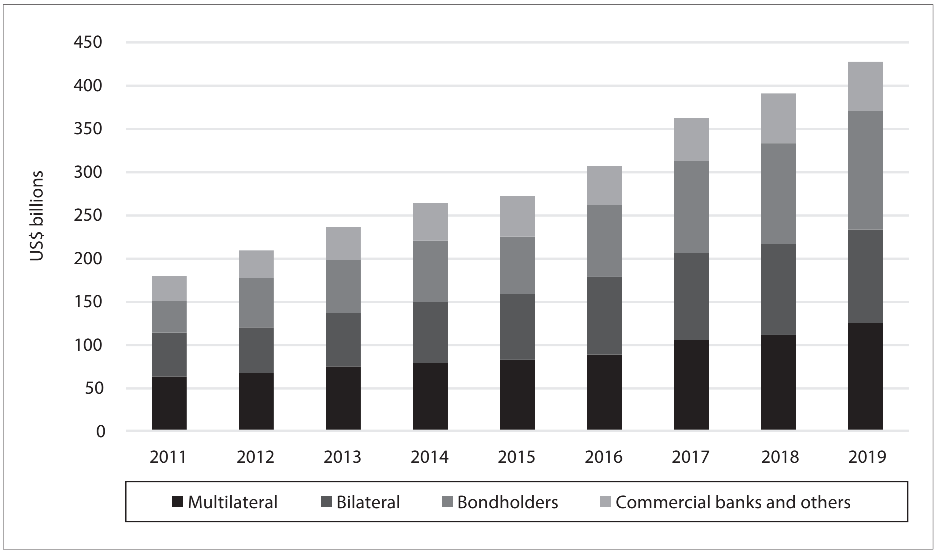
China's economic rise is intimately connected with Wall Street's re-empowerment and the pursuit of American fiscal, monetary and trade

policies that have widened inequality and battered the United States' working and middle classes, which an exorbitant expansion of credit (and therefore skyrocketing consumer debt) sought to mask.[63] In response to the 2007–08 subprime crisis and subsequent recession, the US government and the eurozone nationalised the financial industry's catastrophic losses, embraced untested monetary instruments and opened the spigots to stave off deflation.[64] Consistently low interest rates have sent investors hunting for yield around the world, including Africa. Between 2010 and 2015 especially, the number of sovereign bonds issued by African states peaked, with global investors oversubscribing due to high coupon rates. Additionally, private external African debt has ballooned in the last decade (see Figure 2), rising to a quarter of all external debt by 2015, up from 6% in 2000, as African financial sectors have become increasingly globally integrated.[65] Low post-HIPC/MDRI debt ratios and orthodox African central-bank policies made African countries an attractive home for global capital searching for yield in the face of negative real rates.

Understanding this global context – and especially the role of private creditors – is critical to analysing the shortcomings of recent IFI initiatives. Despite being the single greatest growth factor for African debt in the last decade (Figure 3), private capital is not strictly subject to either the DSSI or the Common Framework; the private sector is merely encouraged to accept 'comparability of treatment' but is free to insist on full repayment. Contrary to the debt-trap narrative, if a wave of African defaults materialises in the near future, as IFI officials have been fearing since at least 2015, it will be catalysed more by private-sector manoeuvring and intransigence than by Chinese scheming.[66]

Chinese creditors are appalled by allegations that they are forcing African elites to use Western financial assistance to service Chinese loans. Such claims sound especially ironic to those who remember the 1997–98 East Asian financial crisis, when the IMF insisted that capital mobility be maintained at all times, allowing IFI emergency loans to immediately leave recipient states as US banks were paid off.[67] From Beijing's perspective, the DSSI and Common Framework force the China Development Bank and the Industrial and Commercial Bank of China to the back of the queue while

Figure 2: **Sub-Saharan Africa's external debt stock by holder of debt**



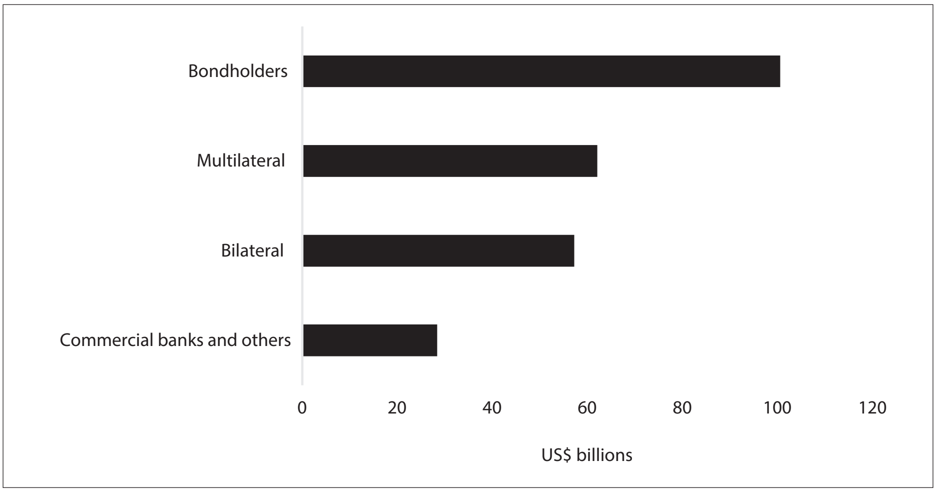
Source: World Bank International Debt Statistics

exempting both the Western-led IFIs and the Western private sector, both of which continue to get repaid by African states. The US government and the World Bank have made it clear that they consider the two Chinese institutions to be policy banks – that is, official creditors unambiguously covered by the DSSI and the Common Framework – even if most of their lending in Africa has been at commercial rates. From Beijing's standpoint, this is Western governments protecting their private sectors and moving the goal posts to inflict damage on China.

Western governments and the IFIs have not addressed the widening gap between African developmental needs and what the IFIs and bilateral donors are willing to make available to African states. Instead, they have explicitly backed the growth in African debt through private borrowing – a supposedly less political financing model – and adopted monetary policies at home that have sent investors hunting for yield in frontier markets.[68]

Ironically, the growing dependence of African treasuries on global financial markets is exposing the DSSI and Common Framework's shortcomings. Many African states were reluctant to join the DSSI and by early 2021 the initiative had delivered less than half ($5bn) of the expected $12bn in payment

Figure 3: **Changes in sub-Saharan Africa's external debt stock by holder of debt, 2011–2019**



Source: Authors' calculations based on World Bank International Debt Statistics

relief.[69] Similarly, all African states bar three have stayed out of the Common Framework. They are loath to show weakness in the markets to which they owe so much for fear of facing much higher premiums in the future or being locked out of those markets altogether when they urgently need them to respond to the challenges of the pandemic, youth unemployment and climate change. The only three applicants for Common Framework treatment – Chad, Ethiopia and Zambia – are scheduled to continue making the bulk of their debt payments (53%) to private lenders, with the MDBs responsible for recouping another 16%.[70] Private lending has continued to increase.[71] What really keeps African leaders awake at night is not Chinese debt traps. It is the whims of the bond market.

* * *

Sovereign bond markets and the global financial integration of Africa's financial sector have expanded dramatically. Since 2014, bilateral and multilateral creditors have owned less than half of sovereign obligations; liabilities to overseas private creditors by both African sovereigns and private African entities now account for most of total external debt.[72] This has given them some freedom from the onerous conditionalities that

have historically shaped their borrowing. But their dependency on private lenders is new and unpredictable, and they have little experience with it. Yet successive US administrations have intensified the narrative that China has become Africa's biggest challenge, and that Beijing's bribery and trickery threaten hard-won public-finance gains and even the sovereignty of African states. Designed to neutralise debt traps, the DSSI and the Common Framework are more about the fraught US–China relationship than about African development. The Common Framework in particular, in the words of a senior IMF director, amounts to a 'test to see whether the Chinese will trade blunting some of their comparative advantage as a lender for legitimacy … We're asking China to join a rules-based international system even if the West regularly bends the rules when it is convenient.'[73]

This is a dangerous game for all concerned. For the IMF and the World Bank, the hope is that insisting on transparency – an eminently important ask – will resonate with African populations and yield better data on the gravity of Africa's debt problem. The risk is that the Common Framework, absent a tougher approach to private creditors and a less flagrant political alignment with US interests, will further weaken the IFIs' already damaged credibility in much of the developing world and further erode their legitimacy as institutions of global governance.

For the US and China, mutual accusations of stirring up a new cold war and indulging in zero-sum thinking risk becoming a self-fulfilling prophecy. They certainly hold obvious dangers for global trade and international stability, and blind the two great powers to shared interests on the African continent. Unlike the US–Soviet leaders in the twentieth century, American and Chinese leaders are not propping up rival elites or providing arms to proxies. Neither Beijing nor Washington gains strategically from Cold War thinking that leaves them open to manipulation by African leaders who play each one against the other to consolidate their power.

Finally, from an African perspective the preoccupation with debt traps is counterproductive. The emergence of new creditors is rendering the international financial landscape on the continent considerably more complex, which will require unprecedented diplomatic agility.[74] Sino-American competition is needlessly complicating that challenge and stands to increase the

notorious ‘Africa premium’, requiring African states to pay higher interest rates on bonds than countries with comparable macroeconomic fundamentals.[75] Even though by no means all African states are heavily distressed – inflows into Africa are a tiny fraction of the negative-yielding debt in mature economies, estimated in December 2020 at $18trn – all of them suffer from the reputational cost of persistent associations of high debt burdens. African officials’ contention that Africa is badly financed rather than over-indebted is credible.

Today, the continent faces soaring external obligations, yet it is also a net exporter of capital: more money leaves the continent, illicitly and all too often also legally, than arrives through FDI, loans, grants and remittances.[76] In that light, an agenda more centred than the Common Framework on realising greater African autonomy, and less preoccupied with impugning China, would make sense.

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